

PROJECT REALITY
(A Nonprofit Organization)

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

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(A Nonprofit Organization)

FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Governors
Project Reality
Salt Lake City, Utah

We have audited the accompanying statement of financial position of Project Reality (a nonprofit organization) as of December 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Reality as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007, on our consideration of Project Reality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wiggins & Co. P.C.

Sandy, Utah
June 27, 2007

PROJECT REALITY
(A Nonprofit Organization)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 609,490
Accounts receivable	278,978
Prepaid expenses	<u>34,353</u>

Total current assets 922,821

Property and equipment

Land, buildings, and equipment (net of accumulated depreciation)	<u>320,676</u>
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Total assets \$ 1,243,497

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 38,587
Accrued liabilities	170,857
Deferred fees	2,145
Current portion of long-term debt	<u>57,778</u>

Total current liabilities 269,367

Long-term debt, net of current portion	<u>155,248</u>
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Total liabilities 424,615

Net assets

Unrestricted	<u>818,882</u>
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Total liabilities and net assets \$ 1,243,497

The accompanying notes are an integral part of these financial statements.

PROJECT REALITY
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

PUBLIC SUPPORT, OTHER REVENUE, AND PROGRAM SERVICES

Public support	
United Way	\$ 59,379
Donations	<u>3,465</u>
Total public support	<u>62,844</u>
 Fees and grants from governmental agencies	
Health Department CDC	20,000
Medicaid	606,752
Salt Lake County Alcohol and Drug Abuse	865,622
Salt Lake County Prevention	341,417
Utah County	<u>152,615</u>
Total fees and grants from governmental agencies	<u>1,986,406</u>
 Other revenue	
Outpatient fees	895,662
Residential fees	7,641
Miscellaneous	34,333
Other client fees	1,475
Insurance reimbursement	<u>11,602</u>
Total other revenue	<u>950,713</u>
 Total unrestricted public support and revenue	<u>2,999,963</u>
 Expenses	
Program services	
Treatment	\$ 2,288,537
Prevention	295,216
Supporting services	
Management and general	<u>337,450</u>
Total expenses	<u>2,921,203</u>
 Net increase in unrestricted net assets	78,760
 Net assets, beginning of year	<u>740,122</u>
 Net assets, end of year	<u>\$ 818,882</u>

The accompanying notes are an integral part of these financial statements.

PROJECT REALITY
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Services			Support Services	
			Total Program Services	Management and general	Total Expenses
Salary and wages	\$ 1,294,648	\$ 188,663	\$ 1,483,311	\$ 145,222	\$ 1,628,533
Employee benefits	161,981	3,020	165,001	33,244	198,245
Payroll taxes	100,941	14,666	115,607	24,020	139,627
 Total salaries and related expenses	 1,557,570	 206,349	 1,763,919	 202,486	 1,966,405
 Alarm	 2,242	 -	 2,242	 -	 2,242
Bank Charges	-	-	-	7,051	7,051
Conferences and workshops	8,475	25	8,500	9,602	18,102
Contract employees	150,988	104	151,092	102	151,194
Depreciation	29,595	3,995	33,590	3,046	36,636
Equipment Maintenance	9,809	1,151	10,960	1,532	12,492
Food	16,076	-	16,076	-	16,076
Insurance	4,961	657	5,618	59,293	64,911
Interest Expense	21,193	-	21,193	-	21,193
Lab Analysis	27,391	-	27,391	-	27,391
Lab Reagents	106,762	-	106,762	-	106,762
Licenses and fees	3,825	13	3,838	131	3,969
Local transportation	14,310	342	14,652	349	15,001
Methadone	51,143	-	51,143	-	51,143
Miscellaneous	1,089	-	1,089	232	1,321
Occupancy Maintenance	37,104	2,300	39,404	2,257	41,661
Occupancy Rent	12,500	-	12,500	-	12,500
Occupancy Utilities	25,258	1,851	27,109	1,816	28,925
Other Medications	11,509	-	11,509	-	11,509
Pharmacy Med Supplies	18,121	-	18,121	-	18,121
Postage	2,041	265	2,306	981	3,287
Printing & Copying	4,460	4,976	9,436	5,996	15,432
Professional Services	11,242	9,395	20,637	20,084	40,721
Remote Hosting	18,790	1,269	20,059	1,246	21,305
Small Equip & Furn	15,600	1,125	16,725	1,292	18,017
Software Comp Sup	490	65	555	4,199	4,754
Staff recognition	-	-	-	649	649
Staff Recruit	22,884	567	23,451	556	24,007
Subscriptions	195	-	195	202	397
Supplies	90,932	59,562	150,494	12,781	163,275
Telephone	11,982	1,205	13,187	1,567	14,754
	<u>\$ 2,288,537</u>	<u>\$ 295,216</u>	<u>\$ 2,583,753</u>	<u>\$ 337,450</u>	<u>\$ 2,921,203</u>

The accompanying notes are an integral part of these financial statements.

PROJECT REALITY
(A Nonprofit Organization)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash flows from operating activities:	
Net increase in unrestricted net assets	\$ 78,760
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	36,636
(Increase) decrease in:	
Accounts receivable	118,799
Prepaid expenses	(1,578)
Increase (decrease) in:	
Accounts payable	(54,594)
Accrued liabilities	214
Total adjustments	<u>99,477</u>
Net cash provided by operating activities	<u>178,237</u>
Cash flows from financing activities:	
Payments on long-term debt and notes	<u>(52,738)</u>
Net cash (used) in financing activities	<u>(52,738)</u>
Net increase in cash and cash equivalents	125,499
Cash and cash equivalents, beginning of year	<u>483,991</u>
Cash and cash equivalents, end of year	<u><u>\$ 609,490</u></u>
Supplemental disclosures:	
Cash paid for interest	<u><u>\$ 21,193</u></u>

The accompanying notes are an integral part of these financial statements.

PROJECT REALITY
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Project Reality operates as a nonprofit corporation located in Salt Lake City, Utah. Their services include a treatment and prevention program for substance abuse. Services are rendered to recipients in Salt Lake and Utah counties.

Basis of Presentation

The financial statements have been prepared on the accrual basis and in conformity with generally accepted accounting principles including SFAS 117. Each program is charged for all direct labor and expenses. Indirect labor and expenses are allocated to each program by management's estimates of the value each function receives from them. The indirect cost allocation is prepared on a monthly basis.

The revenues received for operation are derived from service fees funded from federal and state agencies, county and local governments, private foundations, grants, contracts, medicaid, insurance companies, public and private donations and private individuals. The funding is primarily for the treatment and prevention of substance abuse, which is the only program and purpose of the Organization. The funds received from these sources are billed, based on units of service performed, to the funding sources and have been reported as unrestricted activities in the statement of activities and changes in financial position. The usage of land, buildings, and equipment and other support services are allocated to the treatment and prevention programs based on estimates by management.

Grants and Contracts

Support received under grants and contracts with the United States and local government is recorded as fees and grants from governmental agencies. Grants and contracts receivable represent amounts due for services rendered prior to year end.

Functional Allocation of Expenses

The costs of providing Project Reality's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash Equivalents

For the purpose of the statement of cash flows, Project Reality considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

PROJECT REALITY
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Project Reality follows the practice of capitalizing all expenditures and contributions of fixed assets in excess of \$2,500. Purchased items are reported at cost and donated items are recorded at fair market value. Depreciation is computed on a straight-line basis over the estimated useful lives of five to twenty years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Federal Income Taxes

Project Reality qualifies as a tax-exempt organization. A tax exemption determination letter was received from the Internal Revenue Service dated November 21, 1973, exempting Project Reality from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

At December 31, 2006, the cash balance was \$609,490 and the bank balance was \$621,149. Of the bank balance, \$100,000 was covered by federal depository insurance. Cash deposits are not collateralized nor are they required to be by State statute.

Credit risk for accounts receivable is concentrated as well because substantially all of the balances are receivable from individuals located within the same geographic region.

NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure of an estimate of fair value of certain financial instruments. Project Reality's significant financial instruments are cash, accounts receivable, and bank note debt. For these financial instruments, carrying values approximate fair value.

PROJECT REALITY
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 DEFINED CONTRIBUTION PLAN

Project Reality offers its employees a deferred compensation plan under the Internal Revenue Code Section 403(b). The plan is available to all full time employees of Project Reality. Project Reality has elected not to match contributions to the plan.

NOTE 5 CONCENTRATION

Salt Lake County and Utah County have contracts with Project Reality, which constitute a majority of the Company's revenues.

NOTE 6 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following grants and contracts receivable:

Cornerstone Counseling Center	\$ 5,195
Health Department CDC	3,931
Medicaid	85,921
Salt Lake County Prevention	10,949
Salt Lake County Treatment	68,235
Utah County	26,368
Utah State Tax Commission	11,516
Veteran's Administration	37,164
Reimbursements receivable	28,936
Various others	<u>763</u>
	<u><u>\$ 278,978</u></u>

PROJECT REALITY
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7. PROPERTY AND EQUIPMENT

Project Reality follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$2,500. Depreciation expense amounted to \$36,636 for the year ended December 31, 2006. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

<u>Description</u>	<u>Estimated life in years</u>
Building and improvements	20
Furniture and equipment	5-10

A summary of property and equipment is presented below:

	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/06</u>
Land	\$ 218,090	\$ -	\$ -	\$ 218,090
Buildings and improvements	516,182	-	-	516,182
Furniture and equipment	181,663	-	-	181,663
Total	915,935	-	-	915,935
Less: accumulated depreciation	(558,623)	(36,636)	-	(595,259)
Land, buildings, and equipment (net of accumulated depreciation)	<u>\$ 357,312</u>	<u>\$ (36,636)</u>	<u>\$ -</u>	<u>\$ 320,676</u>

NOTE 8. LONG-TERM DEBT

Project Reality has the following long-term debt at December 31, 2006:

Due to a bank, original note of \$298,831 dated April 18, 2005, and secured by building and property at 154 East 700 South, Salt Lake City, Utah. Payments are due monthly with the last payment due on April 12, 2010. Interest at 8.64%.	\$ 213,026
Less current portion	<u>57,778</u>
Net long-term debt	<u>\$ 155,248</u>

PROJECT REALITY
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8. LONG-TERM DEBT (Continued)

The five-year obligations for the bank note debt are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 57,778	\$ 16,153	\$ 73,931
2008	62,972	10,959	73,931
2009	68,633	73,931	142,564
2010	23,643	24,063	47,706
	<u>\$ 213,026</u>	<u>\$ 125,106</u>	<u>\$ 338,132</u>

NOTE 9. LEASE AGREEMENTS

Project Reality leases office equipment under an operating lease. The contract requires a minimum of 60 monthly payments of \$548 which began June 15, 2003, and the last payment due May 13, 2008.

The following is a list of the future minimum payments required under the lease agreement.

2007	\$ 6,576
2008	<u>2,740</u>
	<u>\$ 9,316</u>

NOTE 10 DEFERRED FEES

The Company received funds to be used for services in the future in the amount of \$2,145. This will be taken into income as requests are made and approved according to the terms and restrictions attached to the funds.

PROJECT REALITY
(A Nonprofit Organization)

MANAGEMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

PROJECT REALITY
(A Nonprofit Organization)

MANAGEMENT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Governors
Project Reality
Salt Lake City, Utah

We have audited the financial statements of Project Reality (a nonprofit organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Project Reality's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Project Reality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Project Reality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Project Reality's financial statements that is more than inconsequential will not be prevented or detected by Project Reality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Project Reality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Project Reality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Project Reality in a separate letter dated June 27, 2007.

This report is intended solely for the information and use of the Project Reality's Board of Governors, and management and is not intended to be and should not be used by anyone other than those specified parties.

Wiggin & Co. P.C.

Sandy, Utah
June 27, 2007



INDEPENDENT AUDITORS' REPORT ON
STATE LEGAL COMPLIANCE

Board of Governors
Project Reality
Salt Lake City, Utah

We have audited the financial statements of Project Reality (a nonprofit organization) for the year ended December 31, 2006, and have issued our report thereon dated June 27, 2007. As part of our audit, we have audited Project Reality's compliance with the requirements of the provider contract determined to be a major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006. Project Reality received the following major State assistance programs from the State of Utah:

Alcohol and Drug Abuse and Mental Health Services Block
(Salt Lake County Department of Health and Human Services)
Utah State Department of Social Services, Medicaid Assistance
Utah County Health Department Substance Abuse Treatment
Utah State Department of Human Services
(Division of Child and Family Services and Central Region)

Project Reality also received the following nonmajor grant, which is not required to be audited for specific compliance requirements (however, these programs were subject to test work as part of the audit of Project Reality financial statements):

Utah State Department of Human and Health Services – CDC Grant

The management of Project Reality is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Project Reality's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Project Reality complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2006.

Wiggins & Co. P.C.

Sandy, Utah
June 27, 2007